

Exhibit 3

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**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
RIVERSIDE DIVISION**

In re

CITY OF SAN BERNARDINO,
CALIFORNIA,

Debtor.

Case No. 6:12-bk-28006-MJ

Chapter 9

**THIRD AMENDED DISCLOSURE
STATEMENT WITH RESPECT TO THE THIRD
AMENDED PLAN FOR THE ADJUSTMENT OF
DEBTS OF THE CITY OF SAN BERNARDINO,
CALIFORNIA (JULY 29, 2016)**

Plan Confirmation Hearing

Date: October 14, 2016
Time: 10:00 a.m.
Place: Courtroom 301
3420 Twelfth Street
Riverside, CA 92501-3819

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1 **I. INTRODUCTION**

2 The City of San Bernardino, California (the “City”) filed a petition under Chapter 9 of
3 Bankruptcy Code on August 1, 2012 (the “Petition Date”), Case No. 6:12-28006-MJ (the “Bankruptcy
4 Case”). This “Third Amended Disclosure Statement With Respect to the Third Amended Plan for the
5 Adjustment of Debts of the City of San Bernardino, California” (“Disclosure Statement”) provides
6 important information to the holders of claims against the City regarding the City’s “Third Amended
7 Plan for the Adjustment of Debts of the City of San Bernardino, California (July 29, 2016)” (“Plan”).
8 A copy of the Plan is attached as Exhibit 1 to the Appendix of Exhibits accompanying this Disclosure
9 Statement (“Appendix”).

10 This Disclosure Statement is being sent to you because the City is asking creditors to vote to
11 accept the Plan. The Bankruptcy Court has approved this Disclosure Statement as containing
12 information of a kind, and in sufficient detail, to enable creditors to make informed judgments about the
13 Plan. The information in this Disclosure Statement is presented as follows: Section II explains the
14 events and circumstances leading to the City’s filing of the Bankruptcy Case; Section III summarizes
15 the significant events that have occurred during the administration of the Bankruptcy Case; Section IV
16 describes the City’s assets and liabilities, including a description of the proofs of claim filed in the
17 Bankruptcy Case; Section V summarizes the classification and treatment of claims under the Plan and
18 other important information concerning the Plan; Section VI discusses the procedures for voting on the
19 Plan and the legal requirements for confirmation of the Plan; and Section VII presents a discussion of
20 certain risk factors to be considered in connection with the Plan.

21 As discussed in detail in this Disclosure Statement, the City commenced the Bankruptcy Case
22 when the City realized that it was at risk of running out of funds needed to provide essential municipal
23 services to City residents. The causes of the City’s bankruptcy are discussed in Section II. Today, the
24 City has in place settlements with most of its principal creditors, those settlements are all incorporated
25 into the Plan, and the City has made significant progress at restructuring the delivery of municipal
26 services. The City’s settlement with the California Public Employees’ Retirement System (“CalPERS”)
27 regarding the City’s continued funding of employee pension benefits is discussed in Section III.D. The
28 City’s settlement with the official Retiree Committee regarding the continued funding of retiree

1 pensions and the restructuring of retiree health benefits is discussed in Section III.E. The City's
2 settlements with the police, firefighters and other employee unions are discussed in Section III.G,
3 IV.A.8 and V.A.2.j. The City's settlements with the bondholders who own City issued bonds are
4 discussed in Section III.F and V.A.2.l. Annexation of the City into the San Bernardino County Fire
5 Protection District ("County Fire"), and having County Fire provide fire suppression and emergency
6 medical response services instead of the current City Fire Department is discussed in Section V.C.1.a.
7 The City's contracting out of solid waste and recycling, sweeping and right-of way clean up services to
8 Burrtec Waste Industries, Inc. ("Burrtec") is discussed in Section V.C.5. The City's insurance coverage
9 for personal injury claims is discussed in Section V.C.1.b. The City's revised Long Term 20-Year
10 Financial Model (the "Financial Model") in support of the financial feasibility of the Plan is attached as
11 Exhibit 3 to the supplemental Appendix and discussed in Section VI.D. Other settlements and
12 restructuring efforts are discussed throughout this Disclosure Statement.

13 The Plan represents a major step forward for the City in its efforts to exit bankruptcy and
14 breathe new life into the City's economy. **All of the City's principal creditor constituencies that**
15 **initially opposed the City's restructuring efforts now support the Plan.** That includes the City's
16 police, fire and other unions, the official Retirees Committee and CalPERS and the holder of the City's
17 bonds. The City reached a comprehensive settlement with CalPERS, the unions and the Retiree
18 Committee which provides that, **if the Plan is confirmed, the City will continue to make its**
19 **payments and comply with its other obligations to CalPERS, thereby preserving, not reducing,**
20 **employee and retiree pension benefits.** As part of those settlements, employees have agreed to
21 contribute more to their pension plans and to make certain other employee benefit concessions, and the
22 Retiree Committee has agreed to the restructuring of retiree health benefits changes that went into effect
23 on January 1, 2015 – all to help the City dig out from its financial insolvency while preserving pension
24 benefits. The Plan also has the support of all of the holders of the City's bonds, and the holders of the
25 City's pension obligation bonds have recently agreed to take a substantial reduction on their claims as
26 well. Under the Plan, the City's creditors are making substantial sacrifices to help get the City back on
27 its feet.

28

1 **Every dollar of savings from the compromises with the City's creditors is going into**
2 **rebuilding the City's badly depleted infrastructure and modernizing the delivery of municipal**
3 **services.** Within the last year, the City completed a Strategic Plan with input from City residents and
4 businesses, which formed the basis for the City's recovery plan submitted as an exhibit to the City's
5 original disclosure statement in May 2015. In November 2015, the City developed a Police Services
6 Five Year Resources Plan to rebuild, modernize and properly equip the Police Department to make a
7 significant dent in reducing crime in the City, and has budgeted \$17.6 million to implement that five
8 year plan. That money will go to hiring new police officers (the number of officers is 30% less today
9 than in 2009), modernizing the Police Department's technology and replacing the department's aging
10 fleet of vehicles. A copy of the Staff Report for the Five-Year Police Resources Plan is included in the
11 Appendix at Exhibit 11, and parties are encouraged to review it. All the evidence shows that reducing
12 crime will not only positively impact the daily lives of the City's residents, but will also stimulate
13 economic development, and the resulting higher tax revenues will enable the City to renew funding
14 City services that were cut back before and during the Bankruptcy Case. The Financial Model on
15 which the Plan is based also budgets funds for road and street maintenance and repair, building
16 upgrades, parks, libraries, community centers and other essential services which have been neglected
17 for a long time due to the lack of funds.

18 The Plan, and the City's settlement with the union representing the City's firefighters, will allow
19 the City to provide better firefighting and emergency medical response ("EMR") services by annexing
20 the City into the County Fire District and utilizing the greater and more modern capacity of the County
21 Fire District to provide City residents with fire and EMR services. The City's firefighters have
22 transitioned over to County employment, and their cooperation in this process, and the concessions they
23 have made, has saved the City substantial sums of money. In addition to replacing the City Fire
24 Department to provide better services at lower cost, the City has contracted for the delivery of solid
25 waste and recycling, sweeping and right-of-way cleanup services to a private contractor, Burrtec Waste
26 Industries ("Burrtec"), which decision had the support of the affected City employees. Every dollar of
27 savings from regionalizing or contracting out City services (including in other areas under
28 consideration) is going to rebuilding the City and improving the delivery of other City services.

1 The City has a long road ahead of it to reach a level of municipal services the residents are
2 entitled to expect. The Plan and the Financial Model on which it is based dedicate as much as the
3 City's resources as they can to providing municipal services to City residents to reach reasonable levels
4 of services over time. That leaves very little to pay creditor claims. Under the Plan, the City will make
5 a distribution of 1% on General Unsecured Claims, because City municipal services were cut to the
6 bone in the years before the Petition Date and in the early days of the Bankruptcy Case, and the City
7 needs to dedicate every dollar available to it to rebuild those municipal services. A description of how
8 much the City was forced to cut back due to lack of funds is discussed in Section III.J below.

9 All creditors will be better off with the City thriving again, in terms of safer streets, more jobs
10 and greater opportunity. Confirmation of the Plan and the consequent City exit from bankruptcy is a
11 major step in that direction. The City asks all creditors, including retirees, who receive Ballots to take
12 the time to check the box for accepting the Plan and return the Ballot to the Ballot Tabulator.

13 A. Purpose of the Disclosure Statement

14 The Bankruptcy Code requires that the proponent of a plan of adjustment prepare and file a
15 disclosure statement that provides information of a kind, and in sufficient detail, that would enable a
16 typical holder of claims in a class impaired under that plan to make an informed judgment with respect
17 to the plan. This Disclosure Statement provides such information. ***Creditors and parties in interest
should read this Disclosure Statement, the Plan, and all of the exhibits and any supplements
accompanying these documents in their entirety in order to ascertain how the Plan will affect
creditor claims against the City and how to cast a ballot with respect to the Plan.***

21 This Disclosure Statement cannot and does not provide creditors with legal, tax or other advice
22 or inform such parties of all aspects of their rights. Claimants are advised to consult with their
23 attorneys and/or financial advisors to obtain more specific advice regarding how the Plan will affect
24 them and regarding their best course of action with respect to the Plan. In addition, retirees are advised
25 to consult with the Retiree Committee.

26 This Disclosure Statement has been prepared in good faith and in compliance with applicable
27 provisions of the Bankruptcy Code. Based upon information currently available, the City believes that
28 the information contained in this Disclosure Statement is correct as of the date of its filing. This

1 Disclosure Statement, however, does not and will not reflect some events that may occur after
2 Bankruptcy Court approval of the Disclosure Statement, and the City presently does not intend to
3 prepare or distribute any supplements to reflect such events.

4 As required by the Bankruptcy Code, the Plan classifies the claims of the City's creditors into
5 classes based upon the different legal rights of creditors, and proposes to pay each class of creditors in
6 accordance with the City's financial ability. The City must continue to provide its citizens with basic
7 essential services, maintain its streets and buildings, and create an environment in which its residents
8 can safely live and work. In order to do so, the Plan has no choice but to impair certain of the City's
9 creditor's claims to provide the City with a feasible financial foothold going forward. The City believes
10 that the financial restructuring set forth in the Plan represents the best option for the City to achieve this
11 outcome, and to return the City to solvency.

12 For the reasons set forth in this Disclosure Statement, the City believes that the Plan provides
13 the greatest and earliest possible recoveries to creditors while preserving necessary City services and
14 operations. Acceptance of the Plan is in the best interests of creditors as well as the best interests of the
15 City's residents and businesses. The alternative to accepting the Plan is only additional delay,
16 uncertainty, expense, litigation, and, ultimately, smaller or no distributions to creditors. Therefore, the
17 City urges that you cast your ballot in favor of the Plan.

18 **B. Summary of Treatment of Claims and Other Information**

19 The following chart summarizes key information about the Plan and this Disclosure Statement,
20 including the proposed treatment of the various classes of claims. **Please do not rely on the chart**
21 **alone. The Disclosure Statement has important information that is not contained in the chart and**
22 **that may influence your decision regarding whether to vote to accept the Plan. Please thoroughly**
23 **read this entire document and the accompanying materials.**

1 **Debtor**

City of San Bernardino, California.

2 **Bankruptcy Court**

United States Bankruptcy Court for the Central District of California, Riverside Division, The Honorable Meredith A. Jury presiding.

3 **Plan**

4 Third Amended Plan For The Adjustment Of Debts Of The City
Of San Bernardino, California (July 29, 2016).

5 **Purpose of the Disclosure
Statement**

6 To provide information of a kind, and in sufficient detail, that
7 would enable a typical holder of claims in a Class Impaired under
the Plan to make an informed judgment with respect to voting on
the Plan.

8 **Balloting Information**

9 Ballots have been provided with this Disclosure Statement to
10 creditors known to have claims that are Impaired under the Plan.
11 Ballots must be returned to and received by the Ballot Tabulator
12 by no later than 4:00 p.m., Pacific Time, on Friday September 2,
13 2016. Objections to confirmation also must be filed and served by
14 no later than September 2, 2016.

15 **Ballot Tabulator**

16 Rust Consulting/Omni Bankruptcy, 5955 De Soto Avenue, Suite
17 100, Woodland Hills, CA 91367

18 **Confirmation Hearing and
Confirmation Objections**

19 A hearing regarding confirmation of the Plan will be held by the
20 Bankruptcy Court on October 14, 2016, commencing at 10:00
21 a.m., Pacific Time, and may be continued from time to time
22 without further notice other than as may be given at the hearing
23 and/or in the docket of the City's chapter 9 bankruptcy case.

24 **Treatment of Claims**

25 If the Bankruptcy Court confirms the Plan and the Plan becomes
26 effective, claims will be treated as follows:

27 **Administrative Claims**

28 Post-petition claims meeting the definition of Administrative
Claims will be paid in full, except to the extent that the holder of
an Administrative Claim agrees to different treatment.

29 **Class 1 Claims:
1996 Refunding Bonds
Claims**

30 **Impaired.** This Class is comprised of approximately \$6 million
31 of Claims relating to the 1996 Refunding Bonds. These Claims
32 will be paid in accordance with the terms of the 1996 Trust
33 Indenture, as amended by the 1996 Refunding Bonds Amendment,
34 and the 1996 Refunding Bond Agreements (City Hall), which the
35 City will assume on the Effective Date. As part of those
36 amendments, a surety will replace funds held in a "Reserve Fund"
37 (as such term is defined in the 1996 Trust Indenture), with such
38 funds to be released to the City for use for capital expenditure
39 purposes in accordance with federal tax covenants.

40 **Class 2 Claims:
1999 Refunding
Certificates of
Participation Claims**

41 **Impaired.** This Class is comprised of approximately \$7.9 million
42 of Claims relating to the 1999 Refunding Certificates of
43 Participation. These Claims will be paid in accordance with the
44 terms of the 1999 Trust Agreement, as amended by the 1999
45 Refunding Certificates of Participation Amendment, and the 1999
46 Refunding Certificates of Participation Agreements (Police
47 Station/201 North E Street/South Valle), which the City will

assume (as amended by the 1999 Refunding Certificates of Participation Amendment) on the Effective Date. As part of the amendments and assumptions provided for in the 1999 Refunding Certificates of Participation Amendment, the Police Station Lease will be prepaid in full from funds in the Capital Reserve Fund and the debt service Reserve Fund (as such terms are defined in the 1999 Trust Agreement), and the City will redeem an amount of the 1999 Refunding Certificates of Participation equal to the principal components of the Police Station Lease payments to be paid. Upon such prepayment, the Police Station Lease will be terminated, and thereafter, neither the JPFA, National nor the 1999 Refunding Certificates of Participation Trustee will have any interest in the Police Station. In addition, once the Police Station Lease payments have been made, the City will have the right to use any excess funds in the Capital Reserve Fund for capital expenditure purposes in accordance with federal tax covenants.

9 Class 3
10 Secured Claims:
11 CIEDB Harriman
12 Project Claims

13 Class 4
14 Secured Claims:
15 CIEDB Pavement
16 Project Claims

17 Class 5
18 Secured Claims:
19 Police Station AC
20 Financing Claims

21 Class 6
22 Secured Claims:
23 Burgess Claims

Unimpaired. This Class is comprised of Claims held by CIEDB with respect to the Harriman Project. These Claims will be paid in accordance with those CIEDB Documents relating to the CIEDB's financing of Harriman Project.

Unimpaired. This Class is comprised of Claims held by CIEDB with respect to the Pavement Project. These Claims will be paid in accordance with those CIEDB Documents relating to the CIEDB's financing of the Pavement Project.

Impaired. This Class includes the claims of Western Alliance Equipment Finance, Inc. in relation to the Police Station AC Financing Agreement. Under the Plan, the collateral securing the City's payment obligations under the Police Station AC Financing Agreement will be relinquished to Western Alliance, the City will have no further obligations under the Police Station AC Financing Agreement, and Western Alliance will have a General Unsecured Claim for any unpaid amounts due under the Police Station AC Financing Agreement (approximately \$475,000).

Impaired. The maturity date with respect to the Burgess Documents is in 2019, at which time a large balloon payment (approximately \$1.1 million) is due to Burgess. Under the Plan, the Burgess Documents will be amended to extend the maturity date until 2022, and the balloon payment will be amortized over that 3-year period with interest continuing to accrue through the new maturity date on the unpaid principal balance at the current interest rate set forth in the Note (5%) which will be paid on January 1 and July 1 of each year of the 3 year extend period. The Burgess Documents will also be amended to provide that Burgess has granted the City the option until April 30, 2017 to pay the principal amount due under the Note at a 10% discount (the "Discounted Payoff"), plus all accrued and unpaid interest at the rate set forth in the Note through the date that the Discounted Payoff payment is made. The City exercised its option to make the Discounted Payoff payment in June 2016, and then conveyed the Fire Maintenance Facility to the County Fire District in connection with annexation of the City into the County Fire

1 District.
2

3 Class 7
4 Claims on Restricted
5 Revenue Bond and
6 Note Payable
7 Obligations

8 **Unimpaired.** The City will continue to apply restricted revenues
9 to pay the Restricted Revenue Bond and Notes Payable
10 Obligations in the ordinary course of business pursuant to the
11 applicable documents.

12 Class 8
13 CalPERS Claims

14 **Unimpaired.** The Claims of CalPERS will be paid in accordance
15 with the City's settlement agreement with CalPERS and all terms
16 of the settlement agreement are deemed incorporated into the
17 Plan. The settlement agreement provides for, among other things,
18 (i) payment of certain arrearages to CalPERS; (ii) payment of
19 certain additional administrative costs of CalPERS; and (iii) a
covenant not to impair CalPERS under the Plan. Notwithstanding
anything in the Plan to the contrary, nothing in the Plan is intended
to or does impair or interfere with the rights of the City and
CalPERS under the Mediator's Order.

20 Class 9
21 PARS Claims

22 **Impaired.** The City has entered into a settlement with the holders
23 of the PARS Claims. Pursuant to the settlement: (i) the PARS
24 Plans will be rejected, and the City will waive any and all claims
25 to the funds held within the PARS Trust and the 415 Trust as of
the date of termination of the PARS Plans, (ii) the amounts
remaining in the PARS Trust and the 415 Trust (approximately
\$1.92 million) will be distributed to the PARS Participants
pursuant to agreed-upon allocations, and the City will endeavor to
make each such distributions in a manner that will minimize
adverse tax consequences for each PARS Participant, (iii) the City
will make a distribution of \$290,000.00 on the later of the
Effective Date or July 5, 2017, and a distribution \$290,000.00 on
the later of the Effective Date or July 5, 2018, in each case to the
PARS Participants pursuant to agreed-upon allocations, and (iv)
the City will be discharged from any and all obligations to further
fund any PARS Plan or to make any other distributions on account
of the PARS Claims.

26 Class 10
27 Consenting Union
28 Claims

29 **Impaired.** The City has entered into settlements with all of the
30 unions representing its seven bargaining units that establish the
31 amount of the claim of each union and its members. The
32 Consenting Union Claims are Class 13 General Unsecured Claims
33 for all purposes, including for voting of, and distributions, on the
34 claims.

35 Class 11
36 Retiree Health Benefit
37 Claims

38 **Impaired.** Under the Plan, the holders of the Retiree Health
39 Benefit Claims will receive the rights and benefits set forth in the
40 Retiree Settlement, including that their pension benefits will not be
41 impaired, but retiree health benefits have been modified.

42 Class 12
43 POB Claims

44 **Impaired.** The POB Claims will be paid in accordance with the
45 settlement between the City and the POB Creditors. Pursuant to
46 the terms of that settlement, the City will make installment
47 payments over a thirty-year term, starting one year after the City's
48 Plan is confirmed. The City will make payments of \$1 million to
49 \$2.5 million per fiscal year until 2046 instead of the \$3.3 million

to \$4.7 million per fiscal year owed under the terms of the 2005 pension bond agreement. The payments constitute a 40% recovery on the POB Claims, in full settlement of the litigation commenced by the POB Creditors regarding the payment priority of their claims, and the POB Creditors now support confirmation of the Plan.

**Class 13
General Unsecured
Claims**

Impaired. On the Effective Date of the Plan or as soon as reasonably practicable after the Effective Date, Holders of Allowed Class 13 General Unsecured Claims will receive a 1% distribution on their claims.

Class 14 Convenience Class Claims

Impaired. Within 30 days after the Effective Date, each holder of an Allowed Convenience Class Claim will receive the lesser of the Allowed amount of the Claim or \$100 at the election of the holder of the Allowed Convenience Class Claim.

Questions:

Questions can be submitted electronically on the City's Chapter 9 website (www.sanbernardinochapter9.com) or by calling 800-572-9583 and leaving a message. All questions will receive a prompt response.

Many capitalized terms are used and defined in this Disclosure Statement and in the Plan.

Capitalized terms used but not defined in this Disclosure Statement have the meaning ascribed to them in the Plan.

C. Summary of Entities Entitled to Vote on the Plan and of Certain Requirements Necessary for Confirmation of the Plan

Holders of Allowed Claims in the following Classes are entitled to vote on the Plan because the Claims in each such Class are “Impaired” under the Plan within the meaning of section 1124 of the Bankruptcy Code: Class 1 – 1996 Refunding Bonds Claims; Class 2 – 1999 Refunding Certificates of Participation Claims; Class 5 – Police Station AC Financing Claims; Class 6 – Burgess Claims; Class 9 – PARS Claims; Class 10 - Consenting Union Claims; Class 11 – Retiree Health Benefit Claims; Class 12 – POB Claims; Class 13 – General Unsecured Claims; and Class 14 – Convenience Class Claims.

Class 10 (Consenting Union Claims) and Class 11 (Retiree Health Benefit Claims) are created for claim description purposes only and are Class 13 General Unsecured Claims for all other purposes under this Plan, including for voting on the Plan and for distributions under a confirmed Plan.

The Bankruptcy Court may confirm the Plan only if at least one Class of Impaired Claims has voted to accept the Plan and if certain other legal requirements are met with respect to Classes of

1 creditors who do not vote to accept the Plan, and with respect to individual creditors who do not vote to
2 accept the Plan. A Class of Impaired Claims has accepted the Plan only when more than one-half in
3 number and at least two-thirds in dollar amount of the Allowed Claims voting in that Class vote in
4 favor of the Plan.

5 In the event of a rejection of the Plan by any of the voting Classes, the City will request that the
6 Bankruptcy Court confirm the Plan in accordance with the “cramdown” provisions of section 1129(b)
7 of the Bankruptcy Code applicable to the Bankruptcy Case. These provisions permit confirmation of
8 the Plan notwithstanding rejection of the Plan by any of the voting Classes if the Bankruptcy Court
9 finds, among other things, that the Plan does not discriminate unfairly and is fair and equitable with
10 respect to each rejecting Impaired Class. Other sections of this Disclosure Statement provide a more
11 detailed description of the requirements for acceptance and confirmation of the Plan.

12 **D. Voting Procedures, Balloting Deadline, Confirmation Hearing,**
13 **and Other Important Dates, Deadlines, and Procedures**

14 **1. Voting Procedures and Deadlines**

15 The City has provided copies of this Disclosure Statement, the Plan, Appendix and Ballots to all
16 known holders of Impaired Claims in the voting Classes eligible to vote on the Plan. Those holders of
17 an Allowed Claim as of June 16, 2016 in each of the voting Classes who seek to vote to accept or reject
18 the Plan must accurately complete a Ballot and return it to the Court-appointed Ballot tabulator, Rust
19 Consulting/Omni Bankruptcy, 5955 De Soto Avenue, Suite 100, Woodland Hills, CA 91367 (the
20 “Ballot Tabulator”), so that their Ballots actually are received by no later than the Balloting Deadline
21 (as defined in the following paragraph). ***The ballots must be returned directly to the Ballot Tabulator,***
22 ***not to the Bankruptcy Court.*** Note that Ballots do not constitute proofs of claim.

23 ***All Ballots must be completed, signed, returned to, and actually received by the Ballot***

24 ***Tabulator by not later than 4:00 p.m. Pacific Time, Friday, September 2, 2016 (the “Balloting***

25 ***Deadline”). Ballots received after the Balloting Deadline, and Ballots returned directly to the***

26 ***Bankruptcy Court rather than to the Ballot Tabulator, will not be counted in connection with***

27 ***confirmation of the Plan.***

1 2. **Plan Confirmation Hearing Date and Deadlines for**
2 **Objections to Confirmation of the Plan**

3 The hearing to determine whether the Bankruptcy Court will confirm the Plan (the
4 “Confirmation Hearing”) will commence on October 14, 2016, at 10:00 a.m. before the Honorable
5 Meredith A. Jury, United States Bankruptcy Judge for the Central District of California, in Courtroom
6 301 of the United States Courthouse, 3420 Twelfth Street, Riverside, California 92501. The
7 Confirmation Hearing may be continued from time to time, including by announcement in open court,
8 without further notice.

9 Any objections to confirmation of the Plan must be filed with the Bankruptcy Court and served
10 on the following entities so as to be actually received by each of them no later than September 2, 2016:

11 (i) City Attorney’s Office, 300 North “D” Street, Sixth Floor, San Bernardino, CA 92418, Attention:
12 Gary D. Saenz, City Attorney (the City); (ii) Stradling Yocca Carlson & Rauth, P.C., 100 Wilshire
13 Blvd., 4th Floor, Santa Monica, CA 90401, Attention: Paul R. Glassman, Fred Neufeld and Marianne S.
14 Mortimer (counsel to the City); (iii) Bienert, Miller & Katzman, PLC, 903 Calle Amanecer, Suite 350,
15 San Clemente, CA 92673, Attention: Steven J. Katzman, Anthony Bisconti and Anne A. Uyeda
16 (counsel to the Retiree Committee), (iv) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York,
17 NY 10153 Attention: Debra A. Dandeneau (counsel to National Public Guarantee Finance
18 Corporation); (v) Paul Aronzon, Linda Dakin-Grimm, Thomas Kreller, Milbank, Tweed, Hadley &
19 McCloy LLP, 601 South Figueroa Street, 30th Floor, Los Angeles, CA 90017 (counsel to Ambac
20 Assurance Corporation); (vi) Ballard Spahr LLP, 1735 Market Street, 51st Floor, Philadelphia, PA
21 19103-7599 Attention: Vincent J. Marriott, III (counsel to COMMERZBANK Finance & Covered
22 Bond S.A f/k/a Erste Europäische Pfandbrieffund Kommunalkreditbank AG in Luxemburg); (vii) K&L
23 Gates LLP, 10100 Santa Monica Boulevard, Seventh Floor, Los Angeles, California 90067, Attention:
24 Michael B. Lubic (counsel to the California Public Employees’ Retirement System); (viii) Felderstein
25 Fitzgerald Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, California 95814
26 Attention: Steven Felderstein (counsel to the California Public Employees’ Retirement System);
27 (ix) Duane Morris LLP, One Market Plaza, Spear Street Tower, Suite 2200, San Francisco, CA 94105-
28 1127 Attention: Ron M. Oliner (counsel to the San Bernardino Police Officers Association); and

1 (x) San Bernardino City Professional Firefighters, Local 891, SulmeyerKupetz, APC, 333 S. Hope St.,
2 35th Floor, Los Angeles, CA 90071 Attention: David M. Goodrich (counsel to the San Bernardino City
3 Professional Firefighters, Local 891). Objections that are not timely filed and served may not be
4 considered by the Bankruptcy Court. ***Please refer to the accompanying notice of the Confirmation
5 Hearing for specific requirements regarding the form and nature of objections to confirmation of the
6 Plan.***

7 **E. Important Notices and Cautionary Statements**

8 The historical financial data relied on in preparing the Plan and this Disclosure Statement is
9 based upon the City's books and records. Although certain professional advisors of the City assisted in
10 the preparation of this Disclosure Statement, in doing so such professionals relied upon factual
11 information and assumptions regarding financial, business, and accounting data provided by the City
12 and third parties. The status of the City's financial audits is discussed below in Section III.I.

13 ***The City's professional advisors have not independently verified the financial information
14 provided in this Disclosure Statement, and, accordingly, they make no representations or warranties
15 as to its accuracy.*** Although reasonable efforts have been made to provide accurate information, the
16 City does not warrant or represent that the information in this Disclosure Statement, including any and
17 all financial information and projections, is without inaccuracy or omissions, or that actual values or
18 distributions will comport with the estimates set forth herein.

19 ***No entity may rely upon the Plan or this Disclosure Statement or any of the accompanying
20 exhibits for any purpose other than to determine whether to vote in favor of or against the Plan.***
21 Nothing contained in such documents constitutes an admission of any fact or liability by any party, and
22 no such information will be admissible in any proceeding involving the City or any other party, nor will
23 this Disclosure Statement be deemed evidence of the tax or other legal effects of the Plan on holders of
24 claims in the Bankruptcy Case. This Disclosure Statement is not intended to be a disclosure
25 communication to the public capital markets and should not be relied upon by investors as such in
26 determining whether to buy, hold, or sell any securities of the City or related entities.

27 Certain information included in this Disclosure Statement and its exhibits contains
28 forward-looking statements. The words "believe," "expect," "anticipate," and similar expressions

1 identify such forward-looking statements. The forward-looking statements are based upon information
2 available when such statements are made and are subject to risks and uncertainties that could cause
3 actual results to differ materially from those expressed in the statements. A number of those risks and
4 uncertainties are described below. Readers are cautioned not to place undue reliance on the forward-
5 looking statements in this Disclosure Statement. The City undertakes no obligation to publicly update
6 or revise any forward-looking statements, whether as a result of new information, future events, or
7 otherwise. This Disclosure Statement is not required to be submitted to the Securities and Exchange
8 Commission (“SEC”) or any other regulatory agency or body for approval, and has not been approved,
9 disapproved or determined to be adequate, accurate, truthful, or complete by the SEC or any other
10 regulatory agency or body.

11 **F. Persons to Contact for Further Information**

12 If you have questions about the procedures for voting on the Plan, want another copy of a ballot,
13 or seek further information about the timing and deadlines with respect to confirmation of the Plan,
14 please write to either: (1) City of San Bernardino Plan of Adjustment, c/o Rust Consulting/Omni
15 Bankruptcy, 5955 De Soto Avenue, Suite 100, Woodland Hills, CA 91367; or (2) Stradling Yocca
16 Carlson & Rauth, P.C., 100 Wilshire Blvd., 4th Floor, Santa Monica, CA 90401, Attention: Paul R.
17 Glassman, Fred Neufeld and Marianne S. Mortimer (facsimile: 424-214-7010; Email:
18 pglassman@sycr.com, fneufeld@sycr.com or mmortimer@sycr.com). Please note that counsel for the
19 City cannot and will not provide creditors with any legal advice, including advice regarding how to vote
20 on the Plan or the effect that confirmation of the Plan will have upon claims against the City. For
21 additional information, retirees should contact the Retiree Committee. Counsel to the Retiree
22 Committee is Bienert, Miller & Katzman, PLC, Attn: Steven J. Katzman, Anthony Bisconti and Anne
23 A. Uyeda, 903 Calle Amanecer, Suite 350, San Clemente, CA 92673, phone (949) 369-3700.

24 **II. THE CITY'S FISCAL CHALLENGES LEADING TO ITS BANKRUPTCY FILING**

25 The City is a municipal corporation formed and organized under the City Charter and the
26 California Constitution. It is governed by a seven-member Common Council and a Mayor elected by
27 popular vote. The City has approximately 213,000 residents, serves as the county seat for San
28 Bernardino County, and occupies an area of approximately 59 square miles.

1 A. The City's Financial Problems Prior to the Petition Date

2 Beginning in the 1980s, the City faced a number of economic challenges such as job losses from
3 the closure of several major employers in the area like Kaiser Steel and the Santa Fe Rail Yard, as well
4 as the loss of business generated by people traveling between Los Angeles and Las Vegas after
5 Interstate 15 was re-routed roughly fifteen miles west of the City. In 1995, another economic blow hit
6 the City when Norton Air Force Base closed as part of the United States' Base Closure and
7 Realignment Act which resulted in the loss of a significant number of jobs.

8 The housing construction boom of the early to mid-2000s led to speculation in the residential
9 housing market, and San Bernardino experienced an influx of people seeking housing more affordable
10 than that available in Los Angeles, Orange and San Diego Counties. The new home construction and
11 real estate boom provided a boost to the City's economy, but also increased the demand for services.
12 When the real estate boom went bust and the Great Recession hit, San Bernardino was particularly hard
13 hit.

14 Between 2007 and 2012, San Bernardino residential housing prices plummeted resulting in
15 significantly lower property tax revenues. Speculation in San Bernardino's housing market made it
16 particularly vulnerable when the housing bubble burst, and the Riverside-San Bernardino-Ontario metro
17 area had one of the nation's highest foreclosure rates in 2012. San Bernardino's foreclosure rate was
18 3.5 times greater than the national average in 2012. The median single family home sales price peaked
19 in 2007, and remained over 40% below that peak in June of 2012. In addition to declines in residential
20 real estate prices, commercial properties dropped in value and continued to search for a bottom as of
21 2012. Since peaking in the 2008-09 fiscal year, City property tax revenues dropped between \$4 million
22 and \$7 million each year from that peak. Given continued housing market weakness and the constraints
23 imposed by Proposition 13 on property tax increases, property tax revenues likely will grow only
24 modestly for years to come.

25 Sales tax revenues also dropped due to increased unemployment and lower per-capita incomes
26 caused by the loss of the major employers and job losses caused by the Great Recession and real estate
27 market crash. Since June 2008, the City suffered from double digit unemployment and the
28 unemployment rate was 16.9% as of June 2012, notably higher than the State of California's and more